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FEDERAL FARMS LIMITED



ANNUAL REPORT

For the fiscal year ended March 31, 1965



DIRECTORS

Philip Latchman
Arthur H. Zaldin, Q.C.
B. R. P. MacKenzie, Q.C.
C. G. King
Irving J. Fine

OFFICERS

Philip Latchman, President
Arthur H. Zaldin, Q.C., Secretary
Murray H. Scheinert, C.A., Treasurer and Comptroller

REGISTRAR AND TRANSFER AGENT

National Trust Company, Limited, Toronto and Montreal

AUDITORS

Newman & Newman, Toronto

BANK

Canadian Imperial Bank of Commerce, Toronto and Bradford

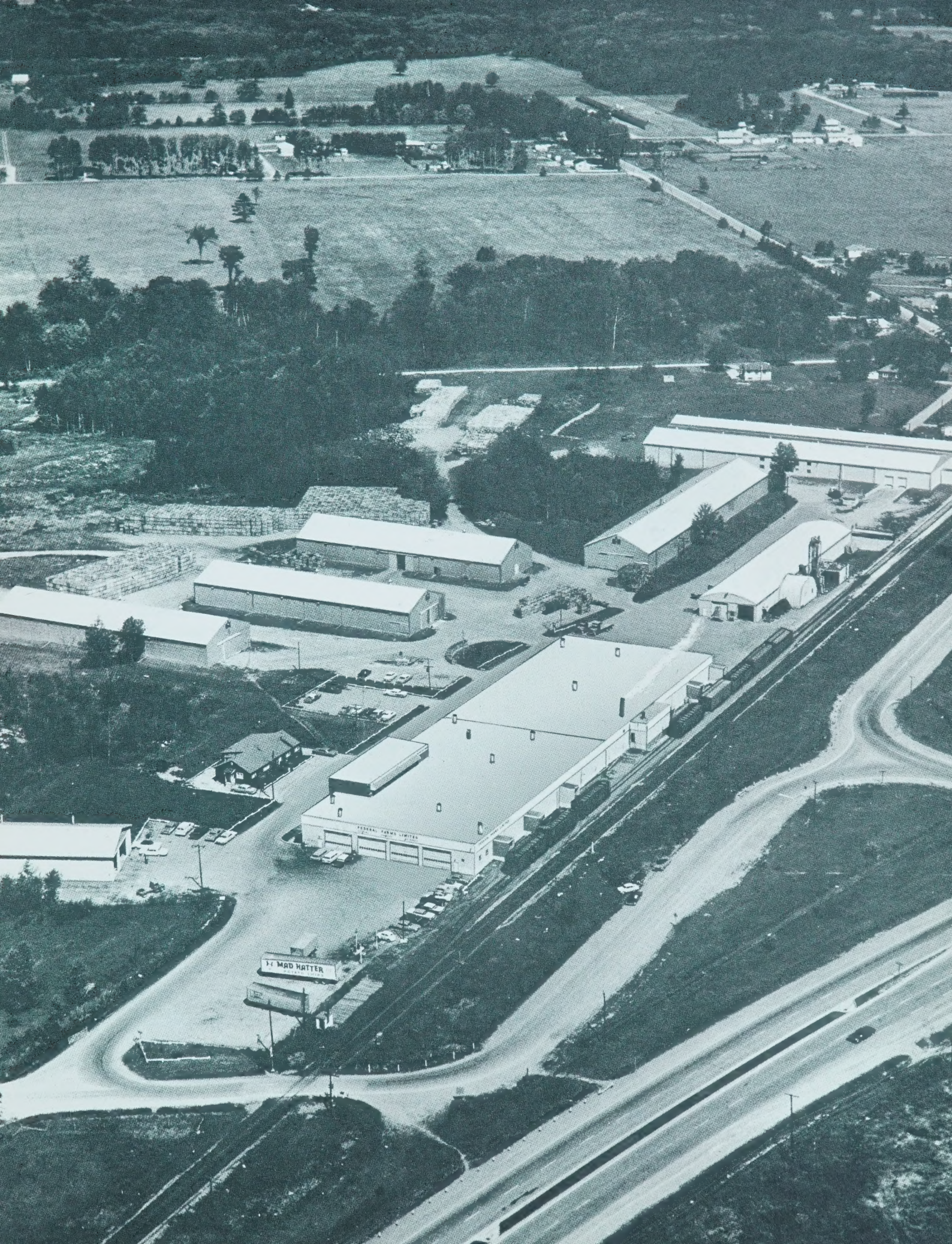
LISTED ON

Toronto Stock Exchange

PLANT AND OFFICE

Bradford, Ontario

Aerial photo shows complex of plant and storage buildings at the Federal Farms Limited, Bradford headquarters. Double-roofed building at upper right is the Company's new snack foods production plant.





THE PRESIDENT'S REPORT

TO THE SHAREHOLDERS

The fiscal year ended March 31, 1965 produced record sales, but provision for loss in a joint crop venture in Florida and the disruption of operations during the strike at the Company's Bradford plant last June resulted in drastically reduced profits.

SALES

Consolidated sales for the fiscal year were \$5,546,302, a 16.56 per cent increase over consolidated sales of \$4,759,878 in the previous year. Gratifying sales increases were recorded in both fresh and processed divisions and projections indicate increases will continue.

EARNINGS

Consolidated net earnings were \$8,442, compared with the previous year's profit of \$138,093. Major factors contributing to the earnings decrease were, as previously

noted, the costly disruption of operations during the strike last June, and provision for loss of \$66,790 in the joint strawberry crop venture.

WORKING CAPITAL

Working capital at fiscal year end was \$197,624, reflecting a current ratio of 1.20:1. This is adequate for normal operating purposes.

MAD HATTER SNACK FOODS

Snack foods sales continued to grow at a vigorous pace and have reached the point where production facilities in the Company's main plant were inadequate to meet the growing demand. Consequently a 36,000-square-foot building has been erected into which all snack foods production equipment will be transferred. With these expanded facilities the Company will be able to meet the requirements of present sales increases as well as demands for additional product in the foreseeable future.

OPERATIONS

The Company continues to expand export of its products to the United Kingdom but in order to place greater emphasis on development of Canadian operations, has discontinued other activities in the U.K. The Company sold its interests in Whitworth's Produce Limited in the U.K. when it became apparent that satisfactory management was not locally available and head office personnel would have to be

transferred from Canada in order efficiently to operate the Whitworth's subsidiary. It was determined that such trained personnel could be employed far more advantageously in Canada.

To further concentrate management on our main business operations, the Company has also terminated its management contract with The Dale Estate Limited.

With management now concentrated at head office, expansion of Canadian operations is proceeding to meet the growing demands for the Company's products.

OUTLOOK

As noted, the Company's sales position has never been stronger. Management is confident Federal Farms Limited will continue to increase its share of the market through an aggressive marketing program and by broadening the Company's product mix to provide our customers with a more complete supply of their requirements, both fresh and processed.

APPRECIATION

We wish to express the Company's appreciation to our customers, shareholders, suppliers and staff for their loyalty and support.



On Behalf of the Board of Directors.



FEDERAL FARMS LIMITED and subsidiary

CONSOLIDATED STATEMENT OF EARNINGS

Year Ended March 31

	1965	1964
PROFIT FROM OPERATIONS — before the undernoted items.....	\$288,297	\$438,757
Income from investments.....	26,638	25,680
Profit on sale of investments.....	7,500	—
	322,435	464,437
Depreciation.....	128,989	123,103
Interest on long-term debt	34,187	38,971
Executive remuneration.....	41,013	51,129
Legal fees.....	7,259	5,827
Amortization of debenture discount.....	1,000	1,000
	212,448	220,030
NET PROFIT — before undernoted items.....	109,987	244,407
Less: Taxes on income (Note 6).....	34,755	106,314
NET OPERATING PROFIT FOR YEAR.....	75,232	138,093
Less: Provision for loss in joint crop venture (Note 3).....	66,790	—
NET PROFIT FOR YEAR — transferred to Statement of Earned Surplus.....	\$ 8,442	\$138,093

CONSOLIDATED STATEMENT OF EARNED SURPLUS

Year Ended March 31

	1965	1964
BALANCE, beginning of year.....	\$583,533	\$439,961
Net profit for year.....	8,442	138,093
Portion of appraisal surplus charged operations.....	6,198	6,396
	598,173	584,450
Less: Income taxes re previous year.....	13,682	917
BALANCE, end of year.....	\$584,491	\$583,533



FEDERAL FARMS LIMITED and subsidiary

ASSETS

CURRENT

Cash on hand and in banks.....		\$ 143,129
Accounts receivable — trade.....	\$ 218,328	
— sundry.....	21,053	239,381
Marketable investments — at cost		
(market value \$407,974).....	374,000	
— accrued interest.....	8,119	382,119
Inventories — at lower of cost or replacement.....		291,164
Income tax refunds.....		47,262
Prepaid expenses.....		62,287
		<u>1,165,342</u>

OTHER INVESTMENTS

Shares — at cost (market value \$55,500).....		30,254
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FIXED — (Note 2)

Land, farm properties, roads, canals and improvements.....	874,680	
Buildings.....	896,726	
Machinery and equipment.....	721,035	
Automotive and mobile equipment.....	595,200	
Railway siding.....	9,926	
Sundry.....	31,118	
	<u>3,128,685</u>	
Less: Accumulated depreciation.....	921,086	2,207,599

OTHER

Advances in joint crop venture (Note 3).....	66,790	
Sundry deposits, receivables and other assets.....	18,833	
Patent — at cost, less portion amortized.....	3,907	
Unamortized debenture discount.....	11,208	100,738
		<u>\$3,503,933</u>

CONSOLIDATED BALANCE SHEET — MARCH 31, 1965

LIABILITIES

CURRENT

Accounts payable and other liabilities.....	\$ 434,811	
Bank loan — secured.....	468,000	
Current portion of long term debt.....	65,043	\$ 967,854

DEFERRED REVENUE..... 3,325

LONG TERM DEBT (Note 4)..... 416,817

MINORITY INTEREST IN SUBSIDIARY (Note 5)..... 111,811

\$1,499,807

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 1)

Authorized
1,500,000 — Common Shares of no par value.

Issued

570,075 — Common Shares..... 586,115
120,000 — Share Purchase Warrants..... 6,000

592,115

APPRAISAL ADJUSTMENT..... 827,520

EARNED SURPLUS..... 584,491 2,004,126

\$3,503,933

Approved on behalf of the Board

Philip Latchman, Director.

Arthur H. Zaldin, Director.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 1965

1. CAPITAL

- (a) 120,000 Share Purchase Warrants are subject to an Indenture dated June 15, 1961 entitling the holders to purchase Common Shares of the Company at the following price per share; \$4.00 up to June 15, 1965; \$5.00 thereafter and up to June 15, 1967; \$6.00 thereafter and up to June 15, 1969. The Warrants will be void after June 15, 1969.
- (b) 60,000 shares of the Company's capital stock have been reserved for issue under an employees' stock option plan adopted in 1961. The purchase price of these shares is subject to restrictions and conditions for terms not in excess of five years. In the year ended March 31, 1965 there were 11,700 shares issued under the plan for a total consideration of \$35,415.

2. APPRAISAL OF FIXED ASSETS

Farm lands and improvements were valued at market in accordance with an appraisal dated May 9, 1961 made by Mr. Norman Porter. Buildings, staff dwellings and land on which same are located, including improvements, are valued at replacement cost in accordance with an appraisal dated May 18, 1961, by Geo. A. Lister & Co. Additions have been included at cost.

3. ADVANCES IN JOINT CROP VENTURE

The Company agreed to share in a Florida strawberry operation, the accounting period of which was subsequent to the fiscal year end of the Company. It appears that the Company may sustain a substantial loss in this operation, the amount of which is not now determinable. Fifty per cent of the advances has therefore been provided as the estimate of the loss in this regard. Since this provision relates to the next fiscal year, no provision has been made for income tax adjustments.

4. LONG TERM DEBT

Federal Farms Limited

6% mortgage, Victoria Kemp, due June 1, 1968.....	\$ 4,000
6½% mortgage, Industrial Development Bank, due September 13, 1969	198,000
4% indebtedness, Township of King, under Farm Drainage Act, due in 1971.....	6,660
7% Convertible Sinking Fund Debentures, Series A, maturing June 15, 1976.....	273,200
	<u>481,860</u>
Less: Payments due within one year included in current liabilities.....	65,043
	<u>\$416,817</u>

Debentures

The terms of the trust indenture dated June 15, 1961 require the establishment of a sinking fund for the 7% Convertible Sinking Fund Debentures, Series A. The second sinking fund payment of \$23,000 is due on June 15, 1965. The Company is entitled to elect to apply, as a Sinking Fund credit, the \$3,800 principal amount of Debentures which were converted in the 1965 fiscal year, and to call for redemption Debentures in the aggregate principal amount of \$19,200. The Debentures are convertible into Common Shares of the Company at the following prices: if converted on or before June 15, 1966, at \$4.00 per share; if converted after June 15, 1966, but before June 15, 1971, at \$6.50 per share; and if converted after June 15, 1971, but before June 15, 1976, at \$9.00 per share.

5. MINORITY INTEREST IN SUBSIDIARY

The minority shareholders' interest in the subsidiary's outstanding Preference Shares represents

\$96,600 out of a total of \$201,600 (47.9% of the total). The amount of fixed preferential cumulative dividends on the Preference Shares of the subsidiary, not declared to date and attributable to the interest of minority shareholders, is \$63,596. No portion of the consolidated earnings in 1965 was attributable to the minority interest.

6. INCOME TAXES

The Company intends to claim for tax purposes capital cost allowances in excess of recorded depreciation. This will result in a reduction of income taxes for the year of \$6,039. Including reductions of prior years the accumulated deferral of income taxes as at March 31, 1965 amounts to \$83,333.

The Company has been disallowed income taxes of \$7,361 claimed, which, on the advice of legal counsel, should be recovered on appeal. The allowance for income tax credits totalling \$17,380 taken for 1964 and 1965 depend upon the favourable outcome of the appeal.

7. CONTINGENT ASSETS

Claims totalling \$76,199 have been filed against several United States and Canadian rail carriers for damage during February, 1963 to vegetables in transit overseas. Payments of \$1,372 have been received in the year. Some claims are still under negotiation, and legal action has been taken where necessary. The statements do not include any amount for the claims pending.

AUDITORS' REPORT

To the Shareholders
FEDERAL FARMS LIMITED,

We have examined the consolidated balance sheet of Federal Farms Limited and its subsidiary company as at March 31, 1965, and the consolidated statements of earnings and earned surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and earned surplus, supplemented by the notes thereto, present fairly the financial position of Federal Farms Limited and its subsidiary as at March 31, 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario.
June 1st, 1965

NEWMAN & NEWMAN
Chartered Accountants



FEDERAL FARMS LIMITED – P.O. BOX 428, BRADFORD, ONTARIO